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FISCAL IMPACT STATEMENT

LS 7419

BILL NUMBER: HB 1546

NOTE PREPARED: Apr 13, 2009

BILL AMENDED: Apr 13, 2009

SUBJECT: Public Retirement Fund Benefits.

FIRST AUTHOR: Rep. Niezgodski

FIRST SPONSOR: Sen. Kenley

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation (Amended) This bill:

(1) allows the board of trustees of the Public Employees' Retirement Fund (PERF) to establish by rule the valuation date and implementation date of changes in a member's investment selections for the Legislators' Retirement System.

(2) allows a member of the system to allocate the investments in the member's account in increments smaller than 10%, if authorized by the PERF board.

(3) allows the PERF Board and the TRF Board to establish a single composite interest or earnings rate in order to compute the interest or earnings credits on a member's omitted contributions in the Guaranteed Program or an alternate investment program.

(4) requires employers to submit contributions and reports to PERF and TRF electronically after December 31, 2009, unless the employer obtains a waiver of the requirement for a period not to exceed two years.

(5) allows the PERF and TRF boards to establish by rule due dates for employer contributions and reports.

(6) increases from \$200 to \$1,000 the maximum amount in a member's annuity savings account (ASA) for purposes of suspending the member's fund membership and paying the ASA in a lump sum.

(7) allows a vested member of TRF who terminates covered employment to elect to withdraw the entire amount in the member's ASA before the member is eligible to do so at retirement and receive a pension at retirement.

(8) requires PERF and TRF to adopt a policy to require direct deposit or another approved method as the

preferred way for a member or beneficiary to receive benefits. The bill allows the PERF or TRF board (or a board designee) to waive the direct deposit requirement in certain circumstances.

(9) requires that payment of an estimated retirement benefit be at least 85% of the actual benefit. (Currently, the payment must be 85% of the actual benefit.)

(10) allows annual payment of a monthly benefit that does not exceed \$5.

(11) provides that a member's application for retirement benefits is void, if, on or before the date the member files the application, the member has an agreement with a covered employer to become reemployed in a covered position.

(12) eliminates the Treasurer of State as the treasurer of PERF and reassigns the treasurer's duties to the PERF Board and executive director.

(13) provides that liability for a PERF member's unfunded service credit is charged against the employer's account.

(14) specifies the date a TRF member returns to active teaching service or teacher education for purpose of earning military service credit.

(15) repeals provisions concerning the Treasurer of State's role as PERF treasurer.

(16) provides for a thirteenth check for members, survivors, and beneficiaries of PERF.

Effective Date: July 1, 2009; January 1, 2010.

Explanation of State Expenditures: (1) Changing investment selections and establishing the market valuation date of a member's investment will have no fiscal impact on PERF and TRF. The funds affected are the respective administrative funds.

(2) Codifying a noncode provision that permits members of the Legislator's Retirement System to change investment selections once each day and allowing a member to allocate the investments in the member's account in increments smaller than 10% if authorized by the PERF Board will have no fiscal impact on PERF's administrative fund.

(3) Allowing the PERF and TRF Boards to establish a single composite interest or earnings rate will generate savings for PERF estimated at \$20,000 per year, and savings for TRF estimated at \$10,000 per year. The funds affected are the respective administrative funds.

(4) Requiring employers to submit contributions and reports to PERF and TRF electronically may reduce the annual costs associated with these reports. The funds affected are the respective administrative funds. PERF has estimated cost savings for this at \$40,000 per year.

(5) Allowing the PERF and TRF boards to establish due dates for employer contributions and reports will have no fiscal impact on either administrative fund.

(6) Increasing from \$200 to \$1,000 the maximum amount in a member's ASA for purposes of suspending the

member's fund membership and paying the ASA in a lump sum are estimated to reduce costs by \$17.50 per affected member. TRF has approximately 37,000 inactive nonvested members with ASA balances less than \$1,000. This would save TRF \$647,500 per year (\$17.50/member x 37,000 members) in administrative costs. PERF has approximately 45,000 inactive members with ASA balances less than \$1,000. This would save PERF \$787,500 per year (\$17.50 x 45,000 members) in administrative costs. The funds affected are the respective administrative funds.

(Revised) (7) Allowing a vested member of TRF who terminates covered employment to elect to withdraw the entire amount in the member's annuity savings account may have a negligible fiscal impact. The number of TRF members who have done this in the past is very small.

(Revised) (8) Requiring PERF and TRF to adopt a policy to require direct deposit for receipt of benefits will save an estimated \$79,000 per year for PERF and an estimated \$22,000 per year for TRF. The funds affected are the administrative funds for both PERF and TRF.

(Revised) (9) Requiring that payment of an estimated retirement benefit for both PERF and TRF be at least 85% of the actual benefit will have no fiscal impact on either fund. This allows PERF and TRF to pay more of the benefit to the member.

(Revised) (10) Allowing annual payment of a monthly benefit that does not exceed \$5 may impact the administrative funds of both PERF and TRF, but not in a significant amount.

(Revised) (11) Denying a member's application for retirement benefits if the member has an agreement with a covered employer to become reemployed in a covered position will delay benefits until the member retires. The impact will depend on the amount of the benefits involved and the number of people involved. The funds affected are the respective benefit funds for PERF and TRF.

(Revised) (12 and 15) Eliminating the Treasurer of State as the treasurer of PERF and reassigning the treasurer's duties to the PERF Board and Executive Director will save an estimated \$8,000. The fund affected is the PERF administrative fund.

(Revised) (13) Providing that liability for a PERF member's unfunded service credit is charged against the employer's account will have no fiscal impact as it provides clarification and codifies existing practices.

(Revised) (14) Specifying the date a TRF member returns to active teaching service or teacher education for purpose of earning military service credit will have no fiscal impact and clarifies exactly how a member's military service is to be determined.

(16) The cost of providing a 13th check for PERF is shown in the table below.

13th Check	State	Local	Total
Change in Unfunded Accrued Liability	\$9.2 M	\$12.6 M	\$21.8 M
Change in Annual Funding	\$709,000	\$974,000	\$1.683 M
Change in Annual Funding as % of Pay	0.04%	0.03%	0.04%

The funded status would decrease from 97.5% to 97.4%.

The funds affected are the state General Fund 55%, or \$389,950, and various dedicated funds 45%, or \$319,050. The percentage split represents the split in the personal services portion of the state budget.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Those units with members in PERF.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; Steve Barley, Chief Operating Officer of PERF and Deputy Director; 317-233-4184.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Funded Status - The ratio of the assets of a pension plan to its liabilities.

Funding- A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Thirteenth Check - An annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.